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LIKELY FOREIGN REACTIONS TO REDUCTION IN US FY83 DEFENSE BUDGET

Summary

If the US should announce reductions in the FY83 defense budget, Soviet, West European and Japanese reactions would depend both on how large the cuts were and where they were made.

The Soviets would regard the cuts as insignificant if they did not have a major impact on US strategic or conventional force expansion programs. If they did have such an impact, the Soviets might conclude that our resolve had weakened.

Major systems cuts would reinforce the prevailing Soviet view that the US, partly for economic reasons, will eventually be forced to scale down its military ambitions and enter serious negotiations with the USSR. Nevertheless, the Soviets would probably not cancel the increases they reportedly included in their own defense budget in response to initial US plans.

In propaganda directed at the West Europeans, the Soviets would make the most of any US defense spending reductions.

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This memorandum, requested by the Deputy Secretary of Defense, was prepared by analysts of the Office of Political Analysis, Office of Economic Research and Office of Strategic Research. Questions and comments may be directed to the Chief of the Western Europe Division, Office of Political Analysis, [redacted] 25X1

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US reductions would not have much impact on actual West European defense spending decisions, but would be used by the West Europeans to help justify their own cuts. If our defense budget continued to show an increase significantly above three percent in real terms, however, we would still be able to make the case that the NATO defense spending goal should be met.

The West Europeans would be particularly concerned if US cuts resulted in a drawdown in US troops in Europe. They might see changes in plans for central and theater nuclear systems as signs of US vacillation, but would be a good deal more positive if a reduction in planned strategic programs were part of an arms control approach to the Soviets.

The Japanese would worry about implications for the US-Soviet balance of power and evidences of US vacillation. But many would be quick to conclude that, since the US was reducing defense spending, Tokyo would not need to make the increases for which Washington has been pressing.

Any negative West European and Japanese reaction would be tempered by the hope that a reduction in the budget deficit would help to lower US interest rates.

SOVIET UNION

Political Attitudes

Soviet political leaders agree that the Reagan Administration is "anti-Soviet" and intends to pursue a "tough" policy toward the USSR and its allies and clients. They do not agree, however, on how far the US is willing or able to push such a policy in terms of concrete actions, or on the implications of the US stance for Soviet policy.

One group that has been arguing that the United States has not yet fully formulated its policy apparently carried the day at the party congress in February and probably still represents the majority view. This view would be strengthened by a US announcement of reductions in planned increases in defense spending, and its adherents might revive their hopes that domestic political, social, and economic constraints would force Washington to adopt a more "realistic" course and undertake serious negotiations with the USSR.

At the same time, however, strong currents of pessimism about the depth of US hostility toward the USSR have been present

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in Moscow this year, especially since spring. There seems to be another group making a "worst case" assessment of US policy, viewing it as seeking to overturn the existing military balance between the US and USSR. This group sees US policy as potentially reckless in confronting the USSR. US budget cuts in defense spending would tend to undermine support for this view in the Soviet Union. Some steps--including reported increases in defense spending--may have already been taken, however, in response to pressure generated by this second group.

Initial Reactions

Publicly the Soviets are certain to deride any announcement of reductions in the US FY83 defense budget as insignificant. They would note that overall defense spending was still slated to increase substantially. They would also exploit in propaganda the theme that the United States was considerably more sensitive to the domestic social implications of its own defense spending than it was to similar concerns of West European leaders.

Privately, the Soviets would be almost certain to conclude that the reductions did not signify abandonment by the United States of major military aims. At the same time, they would probably view our resolve with somewhat less seriousness than before, and view the cuts as necessitated by economic realities. The cuts would thus tend to confirm the view of those Soviets who have argued that the Reagan Administration's priority concern with the domestic economy could force some significant scaling down of its military goals.

The ultimate Soviet judgment would wait upon precise determination of just where the cuts were to be made. Generally speaking, if the projected reductions did not impact on major strategic or conventional force expansion programs, they would be regarded as insignificant. If the reductions did significantly reduce those programs, however, or promised to do so over time, Soviet defense analysts might view them as entailing greater US dependence in the future upon broader military cooperation with Western Europe, the Peoples Republic of China, and Japan to contain Soviet power.

Strategic Programs

If the reductions impacted significantly on US strategic programs, the Soviets would doubtless conclude that the United States would face substantial difficulties in altering global perceptions of the US-Soviet military balance and in reversing global perceptions of Soviet strategic momentum. More significantly, major cuts in US strategic programs would run counter to the views of those Soviets who argue that the United States is striving to recapture superiority over the USSR in strategic nuclear forces in order to deter Soviet adventurism in the Third World. Moscow has frequently alleged that projected US improvements in strategic forces are primarily motivated by a

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desire to reinvigorate the credibility of the US "nuclear threat." Such a threat would then offset Soviet advantages in local superiority of conventional forces near several Third World areas whose resources have been declared vital to continued Western security.

To some extent, even limited cuts in strategic programs might lead the Soviets to conclude that the United States would be more willing to reopen SALT talks, and that it would be forced to compromise its alleged intention to wait until new strategic systems are well along in the acquisition process before holding serious negotiations.

Conventional Forces

The Soviets were quick to note that the new Administration's initial additions to the US FY82 military budget aimed almost exclusively at improving readiness and sustainability of conventional forces and at preparing for conventional force structure expansion. This appeared to confirm the thesis of those Soviet analysts of US security policy who argued that US improvements in strategic force capabilities were intended not only to deter Soviet adventurism, but also to serve as an indispensable "umbrella"--should such deterrence fail--for sheltering substantial commitment of general purpose forces to local crises outside Europe.

Cuts that adversely affected readiness of conventional forces or specific force expansion programs, such as maritime pre-positioning ships and airlift and Cargo Experimental (CX) aircraft, would diminish the credibility of our resolve to contest Soviet efforts to capitalize on local crises in distant Third World areas. They could also incline the Soviets to believe that we would be relatively more dependent upon early, first use of nuclear weapons, if we did inject our forces into such contingencies despite the presence of superior Soviet conventional forces.

Defense Spending

US reductions in defense outlays would not be likely to be a decisive factor in the internal Soviet debate over military requirements and economic policy for the 1981-85 period--despite the intensification of the battle over civilian versus military priorities in budgetary allocations flowing from the continuing poor performance of the economy and the prospect of a third bad harvest.

Resource allocation decisions appear to have been particularly troublesome for the Soviets in preparing the 11th Five-Year Plan (1981-85) even before the US announced its intentions to increase defense spending. The sketchiness of detail in the draft guidelines for the plan published in December 1980 and approved by the 26th Party Congress in March 1981

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suggested that there was uncertainty and conflict among Soviet planners, and that the difficult problems of priority had not been resolved by the leadership in several critical areas. Since February, however, the Soviets have reportedly been making last-minute changes in the 1981-85 economic plan to increase substantially defense expenditures in response to projected increases in the US defense budget.

Any increase in the Soviet resource commitment to defense would occur within the context of an already large and growing defense effort. Over the past 15 years Soviet defense expenditures have grown at a real average annual rate of about 4 percent to the benefit of all the military services and missions. Without the recent reported adjustments, we would expect Soviet defense spending to continue growing through 1985 at about this same rate. Any additional large increases in Soviet defense spending would primarily reflect Moscow's perception of competition with the West, and its determination to respond to an expanding American defense effort and an increasingly uncertain strategic environment.

If the Soviets have in fact adjusted their defense spending plans to counter US increases, an announcement of US defense cuts now would probably have little impact on Soviet planning and budgeting for the 1981-85 period. Preparations for the 11th Five Year Plan are rapidly drawing to a close. The USSR Council of Ministers reviewed a preliminary draft of the plan in June, and the final version is scheduled to come before the Central Committee for approval before the end of the year. In essence, the Soviet decisionmaking process and bureaucratic politics preclude any substantive changes in the plan at this late date. Plan preparations have already been protracted and significantly disrupted by the initial US announcement of increased defense spending. It is highly unlikely that the bargains struck and hard decisions reached would be reversed by announced US defense cuts. Moreover, if the reductions were not in strategic systems, Soviet concerns and uncertainties about the future strategic environment would not be alleviated.

WESTERN EUROPE

A US reduction of the FY83 defense budget would draw wide attention in Western Europe in connection with the Allies' own defense budget process. The precise impact of the US decision on West European governments, however, would depend on the scope of the US reductions, the types of programs affected, and the rationale given for the decision.

Defense Spending

Defense budgets in Western Europe are determined primarily by domestic factors such as economic conditions, the internal political balance, and public and political support for defense in comparison with other areas of the budget. Only the last

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overall spending, and that effect would not be great unless the cut were drastic. A cut that halved the real increase in the budget would provoke sharp questioning about distribution of burdens in the Alliance and erode public support for defense programs. On the other hand, a cut that reduced the real increase from 7 to 6 percent would have at most a marginal effect on the policy positions of the public and the politicians.

Nevertheless, any US decision to reduce the planned budget would certainly provide rhetorical ammunition to those countries that are anxious to justify limits on their own defense budgets. If domestic economic difficulties appeared to be the primary reason for major US reductions, the Allies would be more resistant than before to US arguments that the international situation demanded sizeable increases despite internal economic problems. The effect of the US reduction on West European defense budget debates probably would be heightened if it were announced in the near future, since most West European governments are presently in the middle of initial planning and presentation of their FY82 budgets.

Several NATO Allies would argue that their economies are in worse shape than that of the US, and might press again for abandoning any specific percentage goal for NATO spending increases. Growing budget deficits are an increasingly sensitive political issue in most NATO countries as the 1980-81 economic slowdown has made unemployment and welfare expenditures rise above planned amounts while causing revenues to decline. West German Chancellor Schmidt has already noted publicly that the US might scale down its defense budget, and used this to support his thesis that some slowdown of defense spending is necessary in difficult economic times.

If the US were able to retain a large real increase, it would be in a strong position to counter these West European arguments and suggest that NATO's 3 percent guideline should still be achieved. Attempts by the West Europeans to use US cutbacks to justify their own defense spending restraints would be further undercut if the US could convince them that it was simply consolidating functions or eliminating redundant programs after considering a wide range of options. Many West European officials would believe that such a decision made sense militarily and politically as well as economically.

Allied Economic Relations

Some of the Allies perceive existing US defense budget plans as sprawling and undisciplined. Chancellor Schmidt has welcomed the idea of some reduction in US defense spending because he believes that without such action, large budget deficits and high inflation would lead the US to keep interest rates high. The other West European leaders, who are all deeply concerned with the impact of US interest rates on their own economies, would--

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with the possible exception of Mrs. Thatcher--probably share Schmidt's view.

Force Posture

The Allies would seriously object if the reductions involved a drawdown of US troops stationed in Europe or committed there in a wartime scenario. Such a move might heighten fears of an earlier or freer use of nuclear weapons, fears that have already been reinforced by the US decision to produce ERW. Any reduction of forces in Europe would also increase concern that the defense of Western Europe could be "decoupled" from the US strategic arsenal; US forces there are seen as a main guarantee that the US would use every means to defend the region.

The Allied reaction would be less severe--but still negative--if the US decided on major reductions in operating and maintenance outlays for its ground forces. Such an action could be seen as leading to a degradation in the combat readiness of forces earmarked for NATO. The Allies would also object to any cutbacks in contemplated transatlantic co-production or codevelopment programs. Similarly, they would worry that reduced US funding for equipment procurement would make it increasingly difficult to implement "two-way street" proposals.

Allied reaction would be mixed if the cuts restricted US efforts to increase its capability for projecting power into the Indian Ocean and Southwest Asia. Many of the Allies are concerned that the US may be placing too much emphasis on military solutions to problems in that area. They are also alert to indications that spending for that area could weaken defenses in Europe. These concerns arise primarily, however, from discussion of a very large RDF with associated bases in the vicinity. A strong US naval presence, on the other hand, is widely viewed as a positive factor in stabilizing the Gulf region. Moreover, the Allies would worry about policy consistency in Washington if plans for power projection were changed drastically and abruptly.

Although many West Europeans have strong reservations about the US commitment to a long series of new strategic programs, they might be disturbed if the US Government significantly changed its previously stated intentions regarding central and theater strategic systems such as MX, Trident, or LRTNF. Some have been confused by the internal US debate surrounding MX, and there is a danger that they will be left with an impression of vacillation and inconsistency.

That anxiety would be alleviated if it were understood that the internal US review and debate about strategic issues were over and firm decisions had been reached. The Allies probably would not see it as a sign of weakness, for example, if the US chose either the B-1 or "Stealth" bomber but declined to develop both. Moreover, they would generally approve if a readjustment

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in strategic plans were accompanied by arms control initiatives. The NATO Allies might believe that the US could first offer the Soviet Union a deal for mutual cuts or mutual restraint. Even if this did not produce a constructive Soviet response, they would argue, it would reduce NATO's public relations problems in generating West European support for LRTNF modernization and for defense generally.

JAPAN

A US decision to reduce defense spending projected for FY1983 would renew questions in Tokyo about the constancy of US purpose in dealing, not only with the Soviet challenge, but with a wide range of other issues involving Japanese interests. Japanese leaders already ascribe to the US government a propensity for sudden changes in policy, and this would probably be seen as yet another indication of US vacillation. It might, in turn, cause Tokyo to hesitate more before responding positively to future US requests for support that seemed to entail significant costs or risks for the Japanese government.

East-West Relations

A decision to scale down the defense budget might also create some confusion about US policy toward the Soviet Union. The end to the grain embargo has already raised doubts about the seriousness of US concern about the Soviet threat. Lowering the target for defense spending would reinforce the impression that the intensity of the threat could be "adjusted" if the countermeasures needed to cope with it carried high economic costs for the United States.

Japanese officials would also be worried about the implications of such a reduction for the balance of military power between USSR and the United States, which they see as both the indispensable guarantor of Japanese security and the guardian of global stability. The Japanese people apparently still believe a balance exists, but officials are less certain and fear it may clearly shift in favor of the Soviet Union during the mid-1980s. This concern is accentuated by a general impression that US scientific, technological, and industrial prowess is on the wane and that the economic underpinnings of US military power are weakening.

On the positive side, Tokyo would be likely to see a reduction in the rate of US defense spending as a favorable move in the US fight against inflation. Indeed, the Japanese may consider a reduction in the inflation rate essential to a long-term US defense buildup and the strengthening of the US economy.

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Nature of the Cuts

The intensity of the Japanese reaction to a reduction in defense spending would be determined by the magnitude of the reduction and the specific areas targetted for cuts. Although any reduction would provoke questions about US constancy, Tokyo probably would not be deeply troubled if defense spending still increased by around 5 percent in real terms. Indeed, rather than perceiving a radical policy shift, Japanese officials might focus instead on the fact that the United States would still be accelerating the rate of increase in defense spending.

Japanese leaders probably would be most sensitive to the impact of cuts on US strategic forces and conventional forces deployed in the Pacific/Indian Ocean area. They are not attuned to the fine points of deterrent strategy and so would be worried most by budget reductions that resulted in significant cutbacks in highly visible programs such as MX or Trident or US air and naval forces in the western Pacific.

Japanese Defense Spending

Some Japanese officials--those who have been trying to fend off US requests that Japan strengthen its military capabilities--would welcome the cuts. They undoubtedly would interpret any US reduction as reducing Washington's leverage on Tokyo, and thus further dimming the prospects for attaining a 7.5 percent nominal increase in next year's defense budget.

More important over the long run would be the adverse effect on the planning now under way on the 1983-87 Medium Term Operations Estimate. That estimate will determine the shape and magnitude of Japan's defense forces for the rest of the decade. A slowdown in the US defense buildup might cause Tokyo to lower its sights.

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